

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 EA-07 ISO-00 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

FEA-01 IO-11 PA-01 PRS-01 /122 W

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FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 4019

INFO AMEMBASSY JAKARTA

AMEMBASSY MOSCOW

AMEMBASSY NEW DELHI

AMCONSUL BOMBAY

AMCONSUL MADRAS

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E.O. 11652:N/A

TAGS: ENRG, BRTA, IN, CE

SUBJECT: GSL CONTRACTS FOR JOINT VENTURE OFFSHORE OIL

EXPLORATION

REF: 75 COLOMBO 3141

1. SUMMARY: ON JANUARY 2, GSL CEYLON PETROLEUM CORPORATION (CPC) SIGNED CONTRACT WITH WHOLLY -OWNED SUBSIDIARY, CALLED CEYOIL, OF PEXAMIN PACIFIC INCORPORATED, FOR JOINT VENTURE OFFSHORE OIL EXPLORATION ON PRODUCTION SHARING BASIS, IN PALK BAY AREA NORTHWEST OF SRI LANKA. CPC HAS ABANDONED PLANS FOR SELF-FIANCED OFFSHORE PROGRAM AND, THROUGH PEXAMIN, IS ACTIVELY SEEKING PRODUCTION SHARING JOINT VENTURES WITH OTHER OIL EXPLORATION FIRMS FOR OTHER OFFSHORE BLOCKS ALL AROUND ISLAND.

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ACTION CONFIRMS REVERSAL OF PREVIOUS EXPLORATION

POLICY WHICH DEPENDED ENTIRELY
ON SOVIET CONTRACTED SURVEY AND DRILLING
SERVICES AND WHICH EXCLUDED CONSIDERATION OF
WESTERN JOINT VENTURE EXPLORATION EFFORT. END SUMMARY.

2. IN ACTION REFLECTING SIGNIFICANT GSL POLICY
SHIFT ON OIL EXPLORATION, CPC ON JANUARY 2,
SIGNED A 20-YEAR, PRODUCTION SHARING OFFSHORE OIL EXPLORATION
CONTRACT WITH CEYOIL, WHOLLY-OWNED PANAMANIAN
SUBSIDIARY OF PEXAMIN PACIFIC INCORPORATED OF HOUSTON,
TEXAS. SAME FIRM CONTRACTED IN
SEPTEMBER 1975 AS EXPLORATION CONSULTANTS OT CPC
(SEE REFTEL). ACCORDING CPC VICE CHAIRMAN AND
PEXAMIN RESIDENT MANAGER, CONTRACT PROVIDES FOR
JOINT VENTURE EXPLORATION AND DRILLING IN WATERS NORTH
AND SOUTH OF MANNAR PENINSULA NORTHWEST OF SRI
LANKA, AREA ALREADY SURVEYED EXTENSIVELY BY SOVIET
TECHNICIANS UNDER SERVICE CONTRACTS. CPC EARLIER
PLAN HAD BEEN TO CONTRACT DRILLING RIGS AND SERVICES
AT GSL EXPENSE UNDER PEXAMIN GUIDANCE. NEW CONTRACT
CANCELS THAT PLAN AND SHIFTS GSL POLICY FOR OFF-SHORE
EXPLORATION TO EFFORT BASED ON
WESTERN TECHNOLOGY ON JOINT VENTURE, PROFIT SHARING BASIS.

3. ACCORDING PEXAMIN MANAGER, CONTRACTS TERMS ARE
VERY SIMILAR TO THOSE RECENTLY CUSTOMARY IN INDONESIA. BASIC
PROVISION IS FOR FIRST 35 PERCENT OF OIL TO COVER CEYOIL
EXPLORATION COSTS. OF GROSS PRODUCTION, SRI LANKA
WILL RECEIVE 5 PERCENT LOW PRICED OIL FOR DOMESTIC USE.
REMAINDER WILL BE SPLIT 80 PERCENT CPC, 20 PERCENT CEYOIL.
SRI LANKA PERCENTAGE CANRISE TO 92.5 PERCENT WITH INCREASED
PRODUCTION PLUS OTHER PRODUCTION BONUSES. CEYOIL
IS TO BEGIN DRILLING WITHIN 120 DAYS OF CONTRACT DATE
AND WILL EXPEND ABOUT \$US 12 MILLION FIRST TWO YEARS.

4. CPC ALSO INTENDS TO
SOLICIT JOINT VENTURE EXPLORATION FOR ELEVEN OTHER
OFFSHORE BLOCKS. PEXAMIN OFFICIAL SAYS BLOCKS ARE
DISTRIBUTED ALL AROUND ISLAND AND THAT THEY HAVE AL-
READY CONTACTED ABOUT 35 AMERICAN AND OTHER OIL EX-
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PLORATION FIRMS. CPC CHAIRMAN AND VICE CHAIRMAN PLAN TO
VISIT PEXAMIN, HOUSTON AND OTHER US CENTERS IN EARLY
FEBRUARY TO DISCUSS PRODUCTS. AS REFLECTION OF GSL'S
DESIRE TO ACCELERATE OFFSHORE EXPLORATION, GSL WILL
OFFER FIRMS BONUS FOR BEGINNING DRILLING PROGRAMS
BEFORE END 1976.

5. MEANWHILE ONSHORE PROGRAM REMAINS IN SOVIET HANDS.

ACCORDING TO PRESS AND OTHER REPORTS, TECHNOEXPORT PLANS THIRD HOLE AT PESALAI ON MANNAR PENINSULA AND REPORTEDLY ANOTHER ON DELFT ISLAND NEAR JAFFNA. CPC (BUT NOT RUSSIANS) HAS BEEN PUBLICLY AND HEAVILY CRITICIZED FOR CLAIMING OIL DISCOVERY, IN FIRST TWO PESALAI HOLES. PEXAMIN HAS INFORMED US THEY WERE ENCOURAGING BUT DRY.

6. COMMENT: IN 1974, PRESENT INDUSTRIES MINISTER SUBASINGHE STATED PUBLICLY THAT IT WOULD BE "ACT OF SHAME FOR US TO GIVE EXPLORATION RESEARCH TO IMPERIALIST OIL COMPANY" AND HE "WOULD NEVER ALLOW SUCH THING TO HAPPEN WHILE HE WAS MINISTER." SINCE THEN GSL HAS CLEARLY FACED REALITIES OF RISKS AND COST OF MODERN OIL EXPLORATION (ESPECIALLY OFFSHORE) AND HAS MADE PRAGMATIC POLICY CHANGE.
ASSUMING EXPLORATION COMPANIES JUDGE CEYLONSE OFFSHORE PROSPECTS AS WORTHWHILE, SRI LANKA COULD SEE SUBSTANTIAL, LARGEY AMERICAN, OFFSHORE EXPLORATION ACTIVITY IN COMING MONTHS.
VAN HOLLEN

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONTRACTS, JOINT VENTURES, EXPLORATORY DRILLING, OFFSHORE OIL FIELDS
Control Number: n/a
Copy: SINGLE
Draft Date: 09 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976COLOMB00106
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760010-0261
From: COLOMBO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760172/aaaacmip.tel
Line Count: 136
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 COLOMBO 3141
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 06 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06 MAY 2004 by BoyleJA>; APPROVED <12 MAY 2004 by morefirh>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GSL CONTRACTS FOR JOINT VENTURE OFFSHORE OIL EXPLORATION
TAGS: ENRG, BTRA, IN, CE, US, CEYLON PETROLEUM CORPORATION, CEYOIL, PEXAMIN PACIFIC INCORPORATED
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006